



SF 495 – Salvage Vehicle Registration Fee (LSB2420SZ.1)
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Fiscal Note Version – Revised

Description

Senate File 495 changes the fee for new registration for a vehicle under a salvage vehicle title that is subsequently registered with a regular certificate of title. Such vehicles have been repaired. The fee for new registration for vehicles previously under a salvage title will fall under one of the following two criteria:

- If the applicant for a regular title also owned the salvage title, the fee for new registration will be 5.0% of the purchase price of the vehicle.
- If the applicant for a regular title purchased the vehicle from another person that was not registered as a motor vehicle dealer, after repair, the fee for new registration will be 3.25% of the purchase price of the vehicle.

The Bill requires all vehicle titles to state: “NOTICE: Pursuant to the Iowa Code, underreporting the purchase price of a vehicle may be punishable by a prison sentence, a fine, or both.”

Background

Currently, the fair market value of the vehicle used to determine the fee for new registration is adjusted based on a set of criteria as follows:

- If the owner of the vehicle is a licensed recycler, unless the applicant is licensed as a vehicle dealer, the fee for new registration is based on the fair market value of the vehicle, with deduction allowed for the cost of parts, supplies, and equipment for which sales tax was paid and which were used to rebuild the vehicle.
- If the owner is a person not licensed as a recycler or vehicle dealer, the fee for new registration is based on the fair market value of the vehicle, with deduction allowed for the cost of parts, frames, chassis, auto bodies, or supplies that were purchased to rebuild the vehicle and for which sales tax was paid.

The Department of Transportation (DOT) currently states on title applications that underreporting the purchase price is considered fraud and may result in a prison sentence or fine. In 2013, the DOT investigated potentially underreported transactions. The Department mailed letters to selected¹ vehicle sellers and owners to notify them of a potentially underreported sales price. A confirmation of the sales price was requested. If the sales price was underreported, the vehicle owner was informed that they owed tax. This effort resulted in an additional \$73,000 in new registration fees for two months, covering 272 transactions.

Assumptions

- The number of salvage titles that will be converted to regular titles will be 27,300. Of the total, 3,600 will pay a 5.0% fee for new registration and 23,800 will pay a 3.25% fee for new registration. These numbers match data from the previous 12 months.
- The value of vehicle purchase prices is based on records of new vehicle registrations and salvage titles over the last 12 months.
 - **Current Law:** Values are based on the reported taxable value. This value excludes the cost of repairing the vehicle as set by Iowa Code section [321.105A\(2\)c\(17\)](#).

¹ Letters were mailed only to vehicle sellers that appeared to have avoided at least \$150 or more in tax.

- [Senate File 495](#): This fiscal note assumes the value of vehicle purchases will match current law values. [Senate File 495](#) does not allow deductions for the value of parts used to repair the vehicle. However, the value of the deductions is not reported to the DOT and is unknown.
- Adopting the notice statement on Iowa titles will not require additional expenditure.
- The impact to county General Funds is unknown. Counties receive 4.0% of new registration fees and reduced fee revenue will decrease revenue for counties where the vehicle was titled. However, it is not possible to determine which counties will be impacted by this change.
- Expenses associated with adopting these changes to the DOT systems will be funded by existing resources. No additional FTE positions will be required.
- The purchase value of vehicles impacted by this Bill will remain constant, and not be impacted by inflation in the estimated years.
- Current fraudulent behavior is undetected and the fiscal impact of a fraud disclaimer cannot be identified. As a result, the impact on the number of vehicle owners underreporting the purchase price of vehicles and the average value of underreported is unknown. A very general estimate was derived from the following assumptions after reviewing the results of an incomplete fraud study from the DOT in 2013, and reviewing the results of a performance audit conducted in Michigan.
 - The number of vehicle transactions underreported, and degree of underreporting, is based on a study conducted by the DOT in 2013 that investigated these claims. However, the study targeted only instances where it was presumed the underreporting resulted in a tax underpayment of \$150 or more.
 - Based on a weighted average, impacted transactions will result in \$95 in tax per vehicle.
 - Between 0.0% and 8.5% of previously fraudulent transactions will correctly report the sales price. Printing the notification statement on the title may have some impact on fraudulent behavior, but that impact is unknown.
 - Statements printed on the title will occur on or after July 1, 2015. It is assumed that county treasurers will be allowed to exhaust existing title stock. As a result, it will be several years before all vehicles have newer titles.

Fiscal Impact

Based on the above assumptions, changing the fee for new registration for a vehicle under a salvage vehicle title that is subsequently registered with a regular certificate of title is estimated to reduce revenue to the Road Use Tax Fund (RUTF) by a maximum of \$1.3 million beginning in FY 2016 and each year thereafter.

Assuming the notification statement printed on the vehicle title will reduce underreported vehicle transactions, tax revenue to the RUTF will increase. Potential for increased revenue ranges between \$0.0 and \$1.0 million. However, any additional revenue will be phased in as vehicles with the statement on the title are resold, and is unlikely to impact the first year. The RUTF funds are distributed to the Iowa DOT and county and city road departments for the construction of roads.

Sources

Iowa DOT
LSA calculations

/s/ Holly M. Lyons

June 2, 2015

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
